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Zapatero Defends Policies in Response to S&P Warning

1.(U) Standard & Poor's warning of a possible rating downgrade for Spain,s public debt overshadowed President Zapatero's December 10 presentation of his annual report on the economy. While S&P did not change Spain's AA rating, it lowered its outlook from stable to negative and warned of a rating downgrade if the GOS fails to reduce significantly its budget deficit. S&P's announcement could make it more expensive for Spain to service its debt. Now at 66% of GDP, Spain,s public debt is well below the EU average (84%), but its deficit is currently at 11% of GDP, one of the highest in the Eurozone. Zapatero emphasized that the other two main rating agencies, Fitch and Moody's, have confirmed their highest ratings for Spain. He defended his economic policies, saying that government spending was needed to confront the crisis and held that recovery and renewed job growth were just around the corner. He also said the GOS was on track to reduce its deficit to 3% of GDP by 2013, as required by Brussels. (El Pais, 12/11)

Air Comet Collapse Complicates Business Leader's Position

2.(U) The December 22 bankruptcy of Air Comet airline left some 7,000 holiday travelers stranded and 640 workers unemployed. The GOS promised to fund replacement flights to Buenos Aires, Lima, and Bogota for stranded passengers. The bankruptcy, triggered by a British judge's December 18 embargo on the company's airplanes for nonpayment of a debt, has generated widespread criticism of principal owner Gerardo Diaz Ferran, a travel agency group owner who heads Spain,s CEOE umbrella business chamber. Chamber members have speculated that Diaz Ferran may not be able to devote sufficient time to dealing with the bankruptcy and its impact

on his group's operations while at the same time heading the CEOE when its wage negotiations with labor and the GOS are expected to resume. Ironically, several employees of the travel agency group were among those sharing the 585-million-euro top prize in Spain's December 22 Christmas lottery. (El Pais, 12/22; Expansion, 12/23; ABC, 12/23; 20 Minutos, 12/24)

Nuclear Reforms Approved

3.(U) The Council of Ministers approved on December 23 reforms affecting the nuclear power industry. One formalized the possibility that a future Council of Ministers could decide to extend the life of nuclear plants beyond the customary 40-year limit. Another approved the construction of a temporary storage site for nuclear residue; at present each plant stores its own residue, but this is not a long-term solution. In 2004, the Congress called for construction of a single storage facility, but the project had been paralyzed since 2006. (Europa Press, 12/23; El Pais, 12/24)

GOS 2010 Budget Approved As Expected

4.(U) On December 21, the Congress approved the government's 2010 budget as expected. Despite the ruling PSOE's lack of a legislative majority and the tension between the two leading parties, the GOS was able to negotiate amendments successfully with enough parties so that for the first time in three years, the (less important) Senate did not vote down the proposal. Among the over 200 changes to the GOS' original proposal were modifications to the "Beckham law" that reduced tax breaks for foreign football stars and other highly paid foreigners as well as changes to maintain the 400-euro tax deduction for lower-income taxpayers. (Europa

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Press, 12/22)

Electricity Bills to Rise by 2%

5.(U) The Council of Ministers agreed on December 23 that electricity rates for most households and small businesses would rise by 2.64% on January 1. Comment: By itself, this increase will not do much to close the continuing gap between what consumers pay and what the government owes the electricity generating companies. However, the GOS has been raising rates above the rate of inflation for the last few years, and another increase is possible in July. (20 Minutos, 12/24; El Pais, 12/24)

Savings Banks Agree to Merge

6.(U) Four small savings banks ("cajas"), Caja de Burgos, Caja Navarra, CajaCanarias, and Sa Nostra, announced that they would merge. The new entity, to be named Banca Civica, would be the sixth largest caja in terms of assets. Final approvals by boards, shareholders and GOS authorities are expected to be completed by the end of February. (Europa Press, 12/18)

November Inflation 0.3%

7.(U) Twelve-month consumer price inflation in November was 0.3% after a month-on-month increase in November of 0.5%. Both figures were 0.1% below the preliminary estimate reported in reftel. (National Statistics Institute, 12/15)
CHACON